

Revenue Committee

Meeting Summary

June 15, 1999

APPROVED (7/20/99)

Committee members present: Skip Rowley, Chair, Bob Helsell, Vice-Chair, Jim Fitzgerald, Representative Ed Murray, Neil Peterson, Senator George Sellar, Commissioner Judy Wilson

Committee members not present: Roger Dormaier, Councilmember Dave Earling, Governor Booth Gardner, Larry Pursley, Mike Roberts

The Revenue Committee convened at 8:35 am at the Sea-Tac Airport small auditorium. Chairman Skip Rowley called the meeting to order and reported on a number of transportation meetings he attended recently including the WTA Steering Committee which met in Vancouver, WA, and a joint meeting of the Bellevue Chamber of Commerce and the Bellevue City Council. Vice Chairman Bob Helsell reported that he had attended several Board meetings of Sound Transit. Jim Fitzgerald reported that he attended a meeting of the Spokane Regional Transportation Council and was planning to participate in a statewide meeting of a new labor coalition on transportation.

During the public comment period, Mayor Pro Tem Bob Smith of Sequim addressed the Committee on the views of Olympic Peninsula interests regarding the Hood Canal Bridge and the opposition to tolls. Councilmember John Law of Bremerton also spoke, indicating his city had also passed a resolution opposing tolls. Marty Hammond, representing the Clallam Economic Development Council spoke to the same issue as did Larry Williams, City Councilmember of Port Angeles. Helga Morgenstern, representing the State Department of Transportation, stated that the Transportation Commission had already made the decision that the Hood Canal Bridge repairs would be made out of current funds.

Greg Hanon, representing the Western States Petroleum Association, stated that his organization was opposed to local option gas taxes. He said that several of the options suggested in the issue paper on today's agenda resulted in a very high tax: 1) the 2% B&O tax would represent a 29% tax on the profit from gasoline, a low-margin commodity; and 2) a 6.5% state sales tax on gasoline would be a tax on a tax, since 30% of the current price of gas is already a tax. Mr. Hanon was asked whether the petroleum industry could support an increase in the gas tax and he replied that yes, it could, if it were

imposed statewide and then distributed to localities, as in the current approach. He was also asked why the opposition to the sales tax since it can be viewed

as a user fee. He responded that he supported the general use of a sales tax as a local option, but not sales tax on gas since gas was already assessed its own tax. The B&O tax, utility tax and sales tax are each imposed on a different tax base and are thus mutually exclusive.

A motion to adopt the May 12 meeting summary was made and seconded and the motion was approved.

Panel Presentation on the State Budget Process

Presenters Helga Morgenstern, WSDOT Assistant Secretary for Finance and Administration, Aubrey Davis, Transportation Commissioner from King County, Senator George Sellar of Wenatchee, and Representative Ed Murray of Seattle were introduced.

Helga Morgenstern began by describing the agency budget development process which begins with the WSDOT regional managers for maintenance and construction, feeds into program managers, and then to the budget and programming group where all programs come together. The group makes recommendations to the Secretary. The Office of Financial Management provides guidelines that reflect the Governor's priorities such as allowable increases, mandated reductions, and the decision package process for new initiatives. The agency policies are set by the Transportation Commission based on the state Transportation Plan; the Commission also debates priorities and trade-offs.

The process begins with revenue forecasts for state, federal and local revenues. Based on the forecast, the budget is built up out of the current cost of carrying forward maintenance, operations, preservation and then new improvements, with work-in-progress funded first. This same process is applied to state highways, ferries and aviation.

Aubrey Davis began by saying that the Transportation Commission has two roles: to appoint the Secretary of Transportation and review his performance and to approve the agency's budget. The Commission begins the budget process by reviewing the current law budget and examining maintenance and operation functions, such as the timing of overlays and the levels of maintenance services. The Commission then looks at the agency request budget which includes new initiatives. It also examines major policies such as the prioritization of functions. The Commission does not select projects, rather it establishes the parameters for selection.

Mr. Davis provided a handout showing the biennial and six-year agency request budget by program: highways, ferries, public transportation, passenger rail, freight rail, non-motorized, aviation, marine ports, and support services and partnering efforts. For each program, current law and new initiatives are indicated. This year, the Commission's most significant new initiative was the corridor program that attempts to use a longer term strategic approach and demonstrate measurable and noticeable improvements, based on the criteria of cost-benefit and travel-time savings. In the 1999-2005 time frame, five corridors were selected: SR509, 522, 525, 519 and the North-South Corridor in Spokane.

Asked how the corridors were selected, Mr. Davis replied that corridors were rank ordered based on cost-benefit analysis with a congestion factor based on modeling by the University of Washington.

The Commission meets formally two days a month, plus about six additional meetings. Commissioners are paid \$100 a day for time over 4 hours. Chairman Rowley asked Mr. Davis if he could change one thing, what it would be. The answer given was to make longer term plans beyond the two-year budget cycle and stick to them. Also, predictability of revenue would be a significant improvement. The commitment to a corridor is not a project-by-project selection, rather it requires planning, right-of-way acquisition, etc. for the entire corridor. Currently there is no commitment beyond two years. Asked how you can get local jurisdictions committed to arterial corridors, Mr. Davis said it is less a problem of communication, and more one of insufficient funds or different priorities. A corridor approach requires a dedicated revenue stream over time.

Senator Sellar next spoke to the legislative perspective on the budget process. He said the budget alternates between the House and the Senate each biennium. This year the Governor's budget proposal emphasized corridors and rural economic development. The Legislature tries to scrutinize the work of the department without micromanaging. While the Legislative Transportation Committee is relatively non-partisan, the Legislature is a political body. Each member has come through an election and represents the people who sent him or her. Each legislator looks out for his own district. Historically, the Legislature has raised the gas tax about every 5 years. This time Referendum 49 replaced the increase. It is equivalent to a 6-8 cent increase. The Legislature will not look at new revenue again for 3-4 years.

To pass a budget, statewide support is needed. The major issues usually pass, the arguments tend to be over the smaller things. Senator Sellar said he agrees with priority being given to maintenance and preservation. The Senator was asked about indexing the gas tax. He replied the Legislature indexed it to the price of gas in 1977; the price plummeted and the measure was repealed. An alternative would be to index to the CPI, but some legislators feel that is increasing taxes without a vote. A committee member suggested indexing with a cap and the Senator agreed that was a possibility.

Representative Ed Murray spoke next. He said he has been on Transportation for two years. He said he feels working effectively with his colleagues is all about building relationships. He agreed that Transportation is not highly partisan, except on the R-49 debate. He noted that the budget process has been changing around the country as legislative structure has been flattening. Formerly, committee chairs wrote the budget; now much more time is spent consulting members and the opportunities to influence the budget have increased. Representative Murray said he would encourage citizens to get in early to meet with their legislators, even those not on the committee.

The question was asked whether WSDOT had the capacity to deliver all the projects included in R-49. It was described as an issue in the short term, but not necessarily in the long term. Engineering staff levels are low now and hiring is difficult as WSDOT salaries are 25% below market levels. A committee member asked about the issue of fully obligating funds to complete projects beyond the

biennial cycle. The answer was that work-in-progress receives first funding and legislative politics require that numerous projects get started and proceed concurrently (rather than just a few projects being funded fully all at once).

It was also asked why the state does not use the private sector with the build-operate-transfer model in which the private sector can deliver turnkey projects. It was answered that WSDOT is using the concept on two demonstration projects now, including the Tacoma Narrows Bridge which is part of the Public-Private Initiatives program. The comment was offered that the PPI uses private equity, and that the design-build models need not use private financing and are quicker and cheaper.

Senator Sellar commented that some legislators feel that public employees can do the work more cheaply because there is no profit motive. It was also offered that private sector designs might try to cut corners unless required to meet all public standards. Another member noted that all construction is put out to bid to the private sector and that WSDOT remains closely involved in any case, even in design-build projects.

Committee Discussion of Local Government Revenue Sources

The committee turned to the Draft Issue Paper 3 entitled, *Local Sources in Funding City and County Transportation Needs*. Committee consultant Kathy Elias outlined the paper and posed a number of questions for the committee's consideration. She stated that the paper outlines a number of issues with local government funding. One is that the three levels of government are treated differently in their access to dedicated transportation funding – the state has a dedicated gas tax, the county has a dedicated road levy (property tax) and the cities have no dedicated source, and asked why is this so and does it make sense. Another issue is that cities and counties say they are inadequately funded and that current local options are not viable to provide adequate and stable funding.

Kathy recapped the issue paper as citing a number of possible solutions 1) fix the existing disparity in access to dedicated funds, 2) fix the existing local options, 3) recommend other local options for transportation, and 4) other suggestions to increase local government's transportation revenues. Kathy reminded members of four possible benchmarks for evaluating potential revenue measures that the committee had discussed at an earlier meeting: productivity (adequacy) of revenues, greater funding equity, simplification, and increased flexibility.

The discussion began with a suggestion that the committee focus on cities since they don't have a dedicated funding source. For example, the state could provide some funding with strings attached. Another member was concerned about the state and local government governance structures and suggested the committee adopt principles to guide it in the discussion.

Kathy asked whether the committee wanted to address the disparity of funding issue. She said a solution could be to fully fund maintenance and preservation at all levels of government with dedicated sources. A committee member thought that since jurisdictions prioritize differently, such a mechanism

could result in less simplification and more parceling of resources. Another member asked who would make the decisions. An example cited was the pavement management system used by CRAB that determines when maintenance is due on county roads.

A committee member suggested the committee should look for "break-through" concepts and should be willing to consider bold new ideas. For example, all revenues could flow into a single bucket and the transportation system could be funded out of it based on agreed upon principles. Another member said that the local control issue was paramount to many jurisdictions in the state. The committee should work to find solutions where in the end everyone wins by gaining stakeholder support for recommendations. While "out-of-the-box" ideas were great, they needed eventually to have enough support to pass the legislature. Another member thought local jurisdictions would all receive less if the money was put into one big bucket. It was suggested that much overhead cost would disappear if funding came from one bucket.

A member asked whether King County, as an example, should assume the maintenance and preservation functions for all the cities in the county. The local control issue was again raised, to which another member suggested the cities in King County be given the option of contracting with King County for their maintenance and preservation needs. A member stated that more money was needed in the buckets; cities have no useable local options with which to raise money.

The discussion then turned to the "Preliminary Findings" at the end of the issue paper. It was suggested that finding #3 – "A system-based transportation funding approach would allocate dedicated funds and local revenue authority proportionately" – was more of a conclusion than a finding. The committee agreed to delete finding #3. Another member suggested word changes – instead of the "state's roadway network" in finding #1, it should read the "state's transportation network," and instead of "the driving public" the finding should read "the traveling public." The committee agreed. Another member asked whether any new local option transportation authority would be voter-approved. It was noted that the committee had not discussed the matter yet.

The discussion then turned to the "Potential Solutions" portion of the issue paper. Kathy asked which might be high a priority and whether there were any the committee disliked. One member said regional funding should be a priority. Another member suggested that an endowment fund be created to maintain the transportation system. A member suggested a congestion relief strategy.

It was also noted that local governments were on a collision course with the concurrency requirement of GMA. Another member answered that it was the committee's goal to provide funding for maintenance and preservation as well as funds to deal with concurrency (new development). The committee Chair asked that the issue be added to the findings list. A question was raised about a discussion on tax policies. The Chair asked for a report from staff on existing transportation tax incentives.

The committee adjourned at 11:50 am.